



June 14, 2001

Mary L. Cottrell, Secretary  
Department of Telecommunications and Energy  
One South Station, 2nd Floor  
Boston, Massachusetts 02110

Re: **Comments Related to the Technical Conference on Competitive Market Issues**

Dear Secretary Cottrell:

In response to the Massachusetts Department of Telecommunications and Energy's ("Department") request to file additional comments after its Technical Conference on Competitive Market Issues held on May 31, 2001, Select Energy, Inc. ("Select") is pleased to submit its comments pertaining to enhancing the competitive retail electric market in the Commonwealth of Massachusetts. Select's comments are as follows:

1. **Market Design Considerations**

Standard offer and default service rates were established to protect consumers and assist in the gradual transition from a regulated to market-driven electric pricing. However, the current *below wholesale market* price of standard offer (and until recently default service) rates in Massachusetts have contributed to the slow development of a competitive market.

Moreover, Select believes the fundamental issue for retail electric suppliers is how they compete with essentially a *wholesale pass-through* price regarding the default service rate. The default service rate represents a large block of power which is a competitively bid price. It is fundamentally a pure wholesale price that is passed straight through to retail customers. However, competitive retail suppliers have costs above and beyond the wholesale price, e.g., sales costs, marketing costs, customer acquisition costs, billing costs, bad debt, and ongoing customer-care costs. Furthermore, many retail suppliers in the market are essentially in a start-up mode of development, building their business infrastructure and having to make

significant capital investments. Like any successful business enterprise, these costs and associated investments need to be recovered in order to maintain profitability and to effectively serve the marketplace.

The limited retail competition exhibited to date in the default market against this *wholesale pass-through* price has been a result of timing differences, i.e., forward electric prices decreased relative to the regulated default service rate. Typically, retail suppliers target customers that have *better-than-average* usage profiles that can beat the *average* default service price. However, retail suppliers are still competing against wholesale prices. Fundamentally, as long as a retail electric supplier is competing with wholesale pricing, Select believes that the promise and benefits of retail choice for consumers in Massachusetts will be limited in scope.

Therefore, Select encourages the Department to closely examine this important market design issue and explore a range of remedies that may include a retail “add-on” or credit to the wholesale standard offer and default service price. This proposed retail add-on may be instituted for a limited duration while allowing the retail electric market to evolve and develop.

## **2. Statutory and Regulatory Barriers to Retail Competition**

a.) Voluntary Waiver of Rescission Period - In accordance with Chapter 164, the Massachusetts Electric Industry Restructuring Act, a competitive supplier may not initiate generation service to a customer choosing the competitive suppliers prior to midnight on the third day following the customer’s receipt of a written confirmation of an agreement to purchase electricity.

Select is of the opinion that customers, especially the large commercial and industrial rate class customers, should have the right to voluntarily waive their right of rescission in order to “lock-in” an electric price which meets their business requirements. Currently, retail suppliers and their customers must wait until the rescission period has expired. In the highly volatile electric market, this waiting period can often times lead to higher prices for the customer. Therefore, Select suggests that the Department act to amend this statutory requirement to provide greater flexibility to the consumer. Additionally, Select fully supports the continued application of the rescission period for residential and small business customers.

b.) Partial Billing Payment - The partial payment schedule that first applies to the distribution service relegates competitive suppliers to the status of a secondary creditor. The current payment schedule benefits the distribution company while imposing significant financial and credit burdens on competitive suppliers. This regulation should be amended to provide a more equitable treatment to suppliers.

### 3. **LDC Operational Matters**

#### a.) Establish “Smart” Account Numbers in Massachusetts

Select believes that the establishment of “*smart*” *account numbers*, will reduce enrollment failures and billing discrepancies between the LDCs and retail suppliers. If LDC account numbers changed less frequently, the prospects of enrollment and billing errors can be significantly reduced. Also, retail suppliers would be able to execute a contact and enroll a customer at a future date without having to consult with the customer to ensure a current and accurate account number. If LDC account numbers were changed by a formula methodology, that methodology should be shared with suppliers. Customers would significantly benefit from this proposed approach by being enrolled in a more timely manner and receiving current and accurate bills.

#### b.) Customer Usage Information

The timely receipt of customer Interval Usage Information, both current and historical, from the LDC is absolutely critical to offering customers competitive pricing options in today’s marketplace. With the customer’s unique usage profile characteristics, a supplier can effectively offer a customized price demonstrating savings against the regulated default service rate, e.g., particularly when the customer has a *better-than-average* usage profile. Additionally, the provision of monthly interval data can be used by the supplier to bill customers so that they may take advantage of non-traditional peak periods, consolidated demands or interruptible services.

### 4. **LDC Program Design and Development**

Select wishes to commend the Department and those LDCs who are actively exploring ways to expand and facilitate viable competitive supply options for customers currently on default service in Massachusetts. The LDCs can certainly help to lower the barriers of entry into the competitive retail electric market in Massachusetts. Particularly, the LDCs can help reduce customer acquisition, billing, and other associated costs.

However, Select strongly advocates that these programs be designed in a manner that encourages direct interaction between customers and retail suppliers. It is critically important that the free flow of information occur without an extraordinary level interference from the LDC’s. Moreover, Select strongly believes that any LDC program design should not entail a burdensome pre-qualification threshold requirement, nor an overly bureaucratic implementation process, i.e., the NSTAR “Matchmaker” Program. Once a customer has determined that it wants to seek competitive supply offers, Select believes that the LDCs should directly provide customer contact and usage information to the retail supplier. The retail supplier needs to act swiftly to take full advantage of market conditions. Therefore, Select strongly favors a highly streamlined program design approach.

Lastly, as long as the LDCs are required to seek competitive bids for their standard offer and default service supply, the Department needs to be mindful of the timing of implementation of new program designs or methods that encourage large-scale customer egress. In order to simultaneously maintain a robust, competitive wholesale market for this supply, bidders need to have adequate information as to the timing and extent of the retail programs, which may significantly reduce retail customer load during the term of the supply.

On behalf of Select, I appreciate the opportunity to comment on the important retail electric market issues presented at the Department's Technical Conference. Furthermore, Select looks forward to working with the Department and other parties to further enhance retail electric competition in the Commonwealth of Massachusetts.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'S. Fabiani', with a long horizontal flourish extending to the right.

Stephen J. Fabiani  
Vice President - Retail Sales and Marketing  
Select Energy, Inc.